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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 000151

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SECSTATE FOR DAS BRYZA, EUR/CACEN, SA DAS GASTRIGHT

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SUBJECT: NIYAZOV WANTS TO "SOLVE GAS ISSUES PEACEFULLY"
WITH RUSSIA

REF: A. ASHGABAT 50

[B](#). ASHGABAT 108

[C](#). ASHGABAT 140

[D](#). BRUSSELS 301

Classified By: Ambassador Tracey Ann Jacobson for reasons 1.4 (b) and (d)

[1](#)1. (C) SUMMARY. Ambassador was called in by Niyazov Monday morning for a briefing on his Moscow meeting with Putin last week. Unexpectedly, it transpired that the Turkish ambassador had been called in for the same briefing. Niyazov said he had resisted Putin's pressure to take sides against Ukraine in gas negotiations. He then noted that Russia is taking delivery of Turkmenistan gas under its 2006 contract at an accelerated rate of 5-6 bcm a month, and that he, Niyazov, is ready to sign a contract extension in May not only for further deliveries in 2006 at a price of \$100/tcm, but for up to three more years on the single condition that the price increase by \$10 (ten)/tcm each year. Niyazov earnestly expounded the basic ABCs of the Trans-Caspian vs Caspian littoral pipeline options, spoke with new enthusiasm of the latter and blandly ignored the fact that it would do zero to diversify the transit monopoly. GazProm CEO Miller and team supposedly arrive in Ashgabat for talks by or before February 15. Niyazov gave it to be understood he expected to sign a deal with the Russians absent new pledges of material Western backing for a TCP. See Para 9 for comment. END SUMMARY.

[1](#)2. C) Niyazov's one-on-one meeting with Putin lasted three times the scheduled half-hour, he said. Putin pressed for support in the Moscow/Kyiv gas tussle, but Niyazov said openly⁸ that Turkmenistan wouldn't get involved, and criticized GazProm for blocking passage to Ukraine of contracted Turkmenistan gas. He handed the two Ambassadors a sheet charting the ultimate destination of daily deliveries of Turkmenistan gas to the Uzbek border, to show that none was making it to Ukraine. Niyazov said Putin had made it nakedly clear that the Kremlin viewed Ukraine as a political enemy and potential NATO entrant; it would never allow Turkmenistan to sell gas directly to Ukraine, or to Europe via Ukraine. When Ukraine came up with the \$88 million of overdue payments for Turkmenistan gas, Putin had tried to convince Niyazov not to accept it, saying Russia would make the payment instead, he alleged.

[1](#)3. (C) Gas deliveries to Russia are proceeding at an accelerated pace, five to six bcm each month, Niyazov noted. The Russians are ⁸urgently drawing down⁸ their quota under the December 29 bilateral agreement of 30 bcm at \$65 tcm for

calendar 2006. Thus, the whole 30 bcm is set to be shipped by June. This was fine by Turkmenistan, said Niyazov. He would be agreeable to supplementing 2006 sales after May, but only at \$100/tcm. The past and current prices Russia has paid have been robbery, theft⁸. Niyazov then volunteered that he had told Moscow he would sign a three year agreement for 50 bcm per year under the sole condition that the price be increased by an extra \$10/tcm each year, i.e., to \$110 for 2007, \$120 for 2008 and \$130 for 2009. Putin wanted to negotiate the future prices via a formula or mechanism linked to international markets, but Niyazov had turned him down, insisting on the simple ten-dollar-per-year increment. Even though \$130 was a fair price, the Russians had suggested that at that level they could charge \$30 for transit; in that case, Niyazov said, he could charge the Russians for the 700 km of Turkmenistani pipeline through which the gas would also need to be sent en route.

14. (C) NOTE: Niyazov's scenario, if realized, evidently would mean gas deliveries to Russia in calendar 2006 of as much as 60 bcm. END NOTE.

15. (SBU) Gesturing at his huge wall map, Niyazov reviewed westward pipeline alternatives: under the Caspian, or on the littoral around to the north, i.e., via Russia. I proposed to Putin⁸ joint construction of a littoral pipeline, of 50 bcm annual capacity, said Niyazov. Through it, Turkmenistan gas would be sold both to Ukraine and to Europe. Russia would sell its own gas to those markets through the littoral pipeline, too. Russia had not encouraged the TCP option, invoking environmental concerns, said Niyazov blandly. At this point, the Turkish ambassador made the obvious point that a joint Russian-Turkmenistan Caspian-littoral pipeline

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would do zero to dilute Russia's transit monopoly on Central-Asian gas supplies to Europe. Niyazov shrugged the point aside.

16. (SBU) Gazprom CEO Miller will come with a delegation to Ashgabat sometime during February 8-15 to discuss the gas contract and pipeline issues further. Moscow is intent on settling the question before the July summit in St Petersburg, observed Niyazov. He proceeded to note that Georgian president Saakashvili had sent him a letter last Saturday (January 28) proposing a GUAM meeting in Tbilisi, with Turkmenistan present in observer status, to discuss the TCP. To hold such a meeting at this juncture would be premature and provocative, Niyazov warned. First, we (the GOTX) need to come to a resolution with the Russians,⁸ Niyazov insisted. It is vital not to ratchet existing political tensions still higher in the course of finding a satisfactory settlement to the regional energy supply question. But, if the U.S. supports the notion, sometime in April or May would be appropriate to convene such a meeting. However, it would only be useful if it produced cash for the project (sbor sdelat, nada⁸), not just empty declarations, which moreover were politically dangerous. It would also be incumbent to arrive at a commitment by European consumers to contract at least 20-25 bcm per year through the TCP. The latter's annual capacity would be some 50 bcm, and Turkey, Azerbaijan and Georgia together will not account for more than half. The Russians should be invited to the meeting, too; it would be their right to boycott if they chose.

17. (C) At various points, Niyazov also:

-- Said Iran's Foreign Minister and Deputy Oil Minister are flying to Ashgabat this Friday, but that Turkmenistan will refuse the main Iranian objectives. He disparaged the Iranians for buying gas at \$42 and selling to Georgia and Azerbaijan at \$150, and to Turkey at still higher prices;

-- Stressed continued GOTX support of a TAP and confirmed the scheduling of a high-level meeting of interested parties on

the subject in Ashgabat mid-February;

-- Asserted that Moscow was adding pressure on Turkmenistan by signing joint gas-exploration agreements with all the other ex-Soviet states, even Kyrgyzstan. Nazarbayev had called him to boast of his own recent agreement; according to Niyazov his counterpart had been told to expect production of 40 bcm to result, but the field didn't hold more than half that amount;

-- Stated that Lukoil bankers to buy a controlling interest in the Turkmenistan operations of Malaysia's oil-producer Petronas. But Petronas here is working solidly, has all the cash it needs, and refuses to entertain the idea;

-- Added that the Chinese likewise are insistently trying to buy Turkmenistan's gas deposits outright. Turkmenistan will never countenance this, and moreover has reiterated to the Chinese that they can only have access to deposits to the right bank of the Amu Darya.

18. (C) Ambassador noted that the USG is interested in supporting projects that will enhance competition for gas supply to Europe, not further extend Gazprom's monopoly. As with the Turkish Ambassador's observation that a Russia-Turkmenistan Caspian Littoral pipeline project would not create a real alternative for Turkmenistan, and leave it at the mercy of Russian export routes, Niyazov was non-committal. Ambassador also noted that any deepening of energy cooperation would require concomitant progress in other areas as well.

COMMENT

19. (C) Niyazov's 90 minute tete-a-tete with Putin left him much less positive about the possibilities of a Trans-Caspian pipeline than he was during this month's visits by DAS Bryza and Turkish energy minister Guler (reftels). The optics of having the Turkish and U.S. Ambassadors at the table together to get a readout of Niyazov's Moscow trip were likely designed to bolster the hand he can play when Miller visits in 10 days or so. However, both we and the Turks here believe there is still some small room for negotiations on

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pursuing an independent TCP and not selling out to the Russians -- but only with a clear political signal from the West. Niyazov has heard words of interest and support from the US and Turkish governments, but nothing from the EU (we note that the EU is beginning to discuss this issue with EB Assistant Secretary Tony Wayne, although it has apparently not yet made public its position on energy security (Ref D). Even public European support, if (miraculously) appearing in the next week or so, might not be enough to overcome Niyazov's fear of Russian ire. At current production levels, a 50 bcm contract with Russia would not leave much gas for a TCP or any other export possibility.
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